RD AN No. 3573 (4279-B)
September 28, 2000

SUBJECT: Business and Industry Guaranteed Loan Program
Clarification of Loan Processing Issues

TO: State Directors, Rural Development

ATTN: Business Programs Directors

PURPOSE/INTENDED OUTCOME:

Several Rural Development State Offices have requested clarification of RD Instruction 4279-B, section 4279.131(b), regarding the minimum collateral requirements for Business and Industry (B&I) Guaranteed Loans. State Offices have also requested clarification of the loan approval official's ability to require equity in excess of the minimum requirements of section 4279.131(d). The purpose of this Administrative Notice (AN) is to clarify these issues.

COMPARISON WITH PREVIOUS AN:

No previous AN has been issued on these subjects.

IMPLEMENTATION RESPONSIBILITIES:

Office of Management and Budget (OMB) Circular A-129 states, in part, that financing should be limited by not offering terms (including the financing of closing costs) that result in a loan-to-value ratio equal to or greater than 100 percent. RD Instruction 4279-B, section 4279.131(b), requires a loan-to-discounted value not to exceed 100 percent, except in limited circumstances. When the regulations were implemented, it was administratively determined that the more restrictive requirements enhanced the likelihood of loan repayment, one of the major objectives of OMB Circular A-129. To take care of extraordinary circumstances, a limited exception to the Agency's stricter requirement was added in section 4279.131(b)(2).

The web site for OMB circulars is: www.whitehouse.gov/omb/circulars.

EXPIRATION DATE:
September 30, 2001

FILING INSTRUCTIONS:
Preceding RD Instruction 4279-B

We will clarify collateral requirements in the changes to the B&I Guaranteed Loan Program regulations. When you approve a loan with a loan-to-discounted value greater than 100 percent as allowed by section 4279.131(b)(2), the loan-to-value ratio must not exceed 100 percent.

RD Instruction 4279-B, section 4279.131(d), requires a minimum of 10 percent tangible balance sheet equity for existing businesses and 20 percent for new businesses. Reductions in equity requirements may be granted by the Administrator if collateralized personal and corporate guarantees are taken and pro forma and historical financial statements of the business show that it meets or exceeds the industry median quartile for the current, quick, debt-to-worth, and debt coverage ratios and working capital. As reductions require a business to meet projected and historical median quartile ratios, a new business would not qualify for a reduction. Section 4279.131(d) also allows modifications to the equity requirements as granted by the Administrator or designee. Only those modifications resulting in less than the minimum required equity require approval by the Administrator. The loan approval official, within their delegated authority, may require equity in excess of the regulatory minimum, provided there is documented justification in the borrower's case file to do so. You are cautioned to be consistent when requiring more than the regulatory minimum equity.

Additionally, as equity must be determined using balance sheets prepared in accordance with Generally Accepted Accounting Principles (GAAP), we recommend the following GAAP resource:

Miller GAAP Guide by Jan R. Williams
Publisher: Harcourt Brace Professional Publishing
List Price: $64.00
Telephone: 800 831-7799
Web site: www.hbpp.com

(Signed by Randall E. Torgerson) for

WILBUR T. PEER
Acting Administrator
Rural Business-Cooperative Service